

# ORGANIZATION DESIGN

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## HISTORY OF ORGANIZATION THEORY

From its beginning in the 19<sup>th</sup> century, highly linked to the Industrial Revolution, to today, Organization Theory has gone through many conceptual changes in its endeavour to define the functions that organizations should have and how to improve their efficiency. During these years organizations have grown and evolved in different ways according to their aims.

We are going to do a historical overview on the Theory of Organization that will let us see how it has evolved from its beginnings to now. We will look at the big conceptual changes that have lead organizations to adapt to the great challenges that globalization poses and the advantages that can be taken from the opportunities generated by the new technologies.

The following chapters describe this evolution of models and concepts in a very condensed way and categorize them into three fundamental stages. They also cite the main authors and scholars who have adhered to Organization Theory throughout the years.

## CLOSED, BUREAUCRATIC ORGANIZATIONS

At the beginning of the 20<sup>th</sup> century, around 1900 – 1930, organizations were seen as closed and rational systems.

The predominating thought established that the aims of organizations could be achieved by using formal and bureaucratic methods. Individuals were seen as rational beings and in such a way as to be almost mechanical.

Organizational efficiency is achieved by:

- Definition of objectives.
- Prescription of ways to act and what is expected of each individual.
- Evaluation of the real performance of the individual in function of the previously established expectations.

This is the gestation period of the science (“scientific management”) where the mechanisms of bureaucratic control are established.

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## **NATURAL SYSTEMS**

In face of the growing recognition of the limitations of the Rational Systems, a new perspective emerged, that of the Natural Systems, which was the prevalent model from the 30's until the 70's.

In comparison with Rational Systems, the theory of Natural Systems is based on the central idea of the human being as the base of an organization. Organizations are considered as a collective of individuals who share a common interest for the system's survival and who naturally perform structured collective activities in order to achieve this objective.

Followers of this paradigm emphasize more the informal relationships among people. The emphasis of management changes focus from controlling and evaluating individuals to motivating them.

This school of thought has greatly influenced publications specialised in business management and has led to the development of concepts such as cooperation, organizational culture, leadership, motivation and team work.

## **OPEN SYSTEMS**

The Natural Systems' perspective has led to a more open point of view that is focussed on the interaction of an organization with its environment.

In the 60's people began talking about organic models which greatly influenced not only how an organization is formed but also the management's function. The complexity of managing organizations in a global market has encouraged the spread of this new focus.

Nowadays managers are increasingly seen more clearly as not only responsible for leading, motivating and controlling members of their team within a determined area of function but also within the environmental domain where their responsibility has increased drastically, facilitating interaction and taking advantage of opportunities generated by the organization's "value network".

Among the key abilities for leading an organization, flexibility, adaptability and the ability to innovate are taking on everyday a more important role.

The design and implementation of organizational "structures" is no longer the principle focus of Organization Theory as it is becoming increasingly more necessary to develop agile, flexible organizations with greater degrees of coordination between the different functional areas and of the company itself within the domain of its environment.

## **CONCEPT EVOLUCION**

### **MAX WEBER: BUREACRATIC MODEL**

- Clear differentiation of tasks and responsibilities.
- Coordination via a strict hierarchy of authority.
- Standardized decision making rights, norms and procedures.
- Vertical separation of planning and execution.
- Use of technical criteria for recruiting and promoting staff.

### **TAYLOR AND FAYOL: SCIENTIFIC MANAGEMENT**

- Design of company positions and incentive plans to increase productivity by applying industrial engineering methods.

- Principles of effective supervision.
- Maximum number of direct reports (up to 6).
- Unity of command and authority: chain of command that flows from the highest executive level to the lowest level employee.
- The organization is conceived as a well-designed machine, reaching its objectives in an efficient way.

### **BURNS AND STALKER: ORGANIZATION DESIGN**

- Mechanistic: Formal structures oriented to stable conditions where efficiency predominates.
- Organic: Informal structures more appropriate to uncertain conditions where innovation is required.
- Rejection of the idea that there is only one optimum way to structure an organization.

### **MAYO & ROETHLISBERGER: HUMAN RELATIONS**

- The importance of informal relationships in the workplace is highlighted.
- The organization is conceived as a system of inter-dependent human beings who share an interest for the system to work.
- Organizations are not only technical systems for achieving production but also an environment of social interrelations.

### **GALBRAITH, MINTZBERG: STRUCTURAL AND STRATEGIC ALIGNMENT**

The organization must be based on the alignment of the company's objectives with its environment.

This technical note is based on the new paradigm from which an adaptable, flexible and "reshapeable" organization can be designed by fundamentally following the theories of Jay Galbraith.

### **NETWORK COMPANIES**

Nowadays there is much talk about network organization. This refers not only to the impact of new technologies on the concept and design of organizations but also to increasingly less stable frameworks and to less traditional structures. We are facing a new turning point in the theory. A network company is the most adaptable to the new changes that are occurring with everyday greater frequency in organizational policy.

## ORGANIZATION DESIGN



### THE DIRECTOR'S TASK

Creating and developing an organization is one of the main tasks of a director who should be capable of:

- Developing a vision of the business that can be clearly communicated, a mission that determines the path to follow and a series of quantifiable objectives that will serve as reference points.
- Leading the people who make up the organization, attracting the necessary talent for establishing a working environment, rewards and incentives that assure motivation on the part of all the employees.
- Managing the breakdown of power, the decision-making mechanisms, the organizational and production processes and interdepartmental communication.
- Using at all times the most adequate organizational form to achieve objectives, managing change when circumstances call for it and creating a business culture able to adapt to changes in the environment and the market.

### STRATEGY

Organizations are created and developed to be able to achieve a series of strategic aims, for this reason, the design of an organization must always be aligned and coherent with its strategy.

The organization is the principle determining factor of business capabilities and for this reason its development is a key point for the strategic evolution of any company.

### STRATEGY AND STRUCTURE

The organization's structure determines the distribution of power within the organization.

The basic elements that have to be managed to determine the structure are:

- Departmentalization
- Level of specialization
- Levels of supervision

- Distribution of decision-making
- Organizational boundaries

It is also necessary to bear in mind:

- The political nature of any organization.
- The existence of an informal structure that necessarily coexists along with a formal structure.

### **STRUCTURE AND PROCESSES**

Processes determine the flow of information within the organization in both a horizontal and vertical way. If an organization's structure is its skeleton, processes are its circulatory system.

The principle function of the vertical processes is assigning resources, planning, budgeting and supervising operations.

The horizontal or lateral processes guarantee the coordination among different departments within the company.

### **ORGANIZATIONAL FORMS**

Each organization form is applied to a different situation in order to fulfil specific needs. Each organizational form (whether it be functional, divisional, matrix, network or any hybrids of these) can help managers to make an organization more efficient and adapt it to different situations and needs.

### **PEOPLE, INCENTIVES AND REWARDS**

In addition to being able to count on the necessary talent within the organization, it is also necessary to make the employees' objectives coincide with those of the organization.

The incentive systems largely determine the behaviour and motivation of the members of the organization and must be in agreement with the organization's structure and strategy.

### **ORGANIZATION AND PEOPLE**

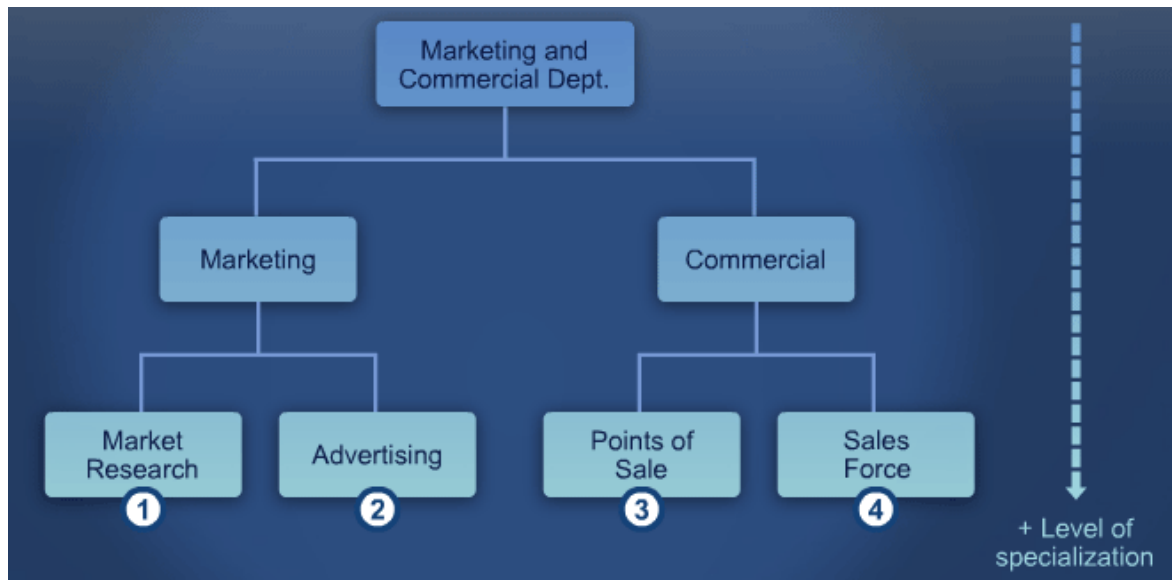
Organizations are made up of people. For this reason, recruitment, rotation and training policies are fundamental for attracting and developing the necessary talent to achieve the strategic objectives.

*Note: In this note we look more deeply into the themes directly related to structural design and organizational processes, yet we would like to place special emphasis on the idea that building an organization is much more than defining its structure and process. Balance among all the elements of organization design is absolutely essential.*

## BASIC ELEMENTS OF ORGANIZATION DESIGN

Once strategy is established, it is necessary to construct the most adequate organization to achieve these strategic objectives. And for this, it is necessary to make a series of decisions based on the following basic elements of organization design.

### SPECIALIZATION



Given that organizations exist in order to reach goals that surpass the separate abilities of the individuals of whom they are composed, it is necessary to determine how the tasks and responsibilities of each member of the organization is going to be divided up.

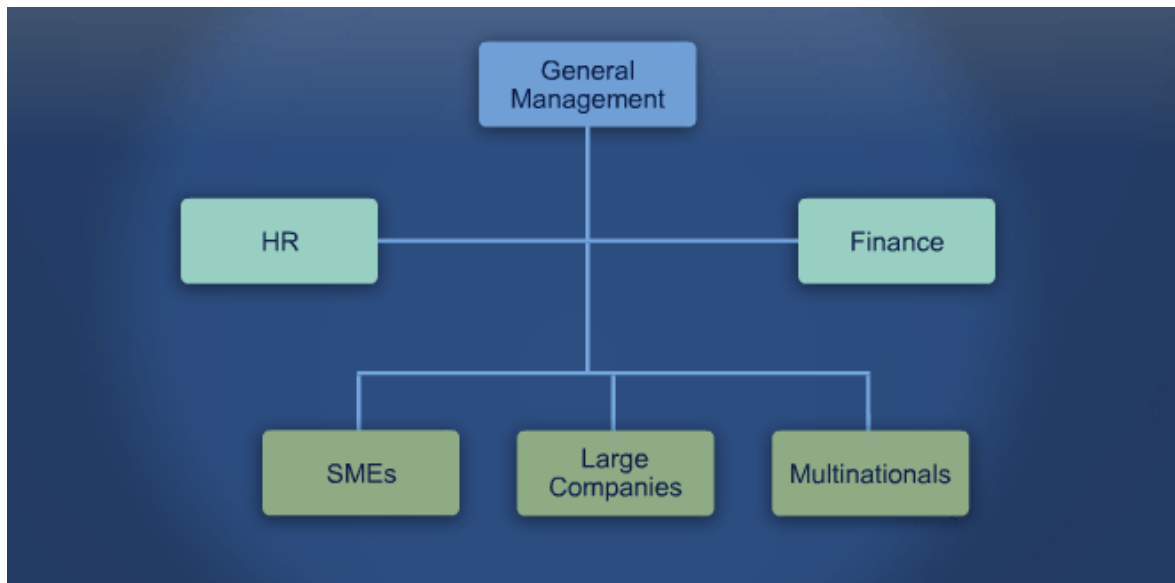
It is vital to make a great deal of decisions with regards to:

- What level of specialization is required for each job.
- What activities make up each job.
- What ability is involved in the conception, execution and administration.
- How the complementary jobs are linked.

In general, the greater the level of specialization is, the greater is the development of sub-tasks in the process.

Greater specialization also increases the difficulty of integrating each task of the process in order to achieve an efficient result.

## DEPARTMENTALIZATION

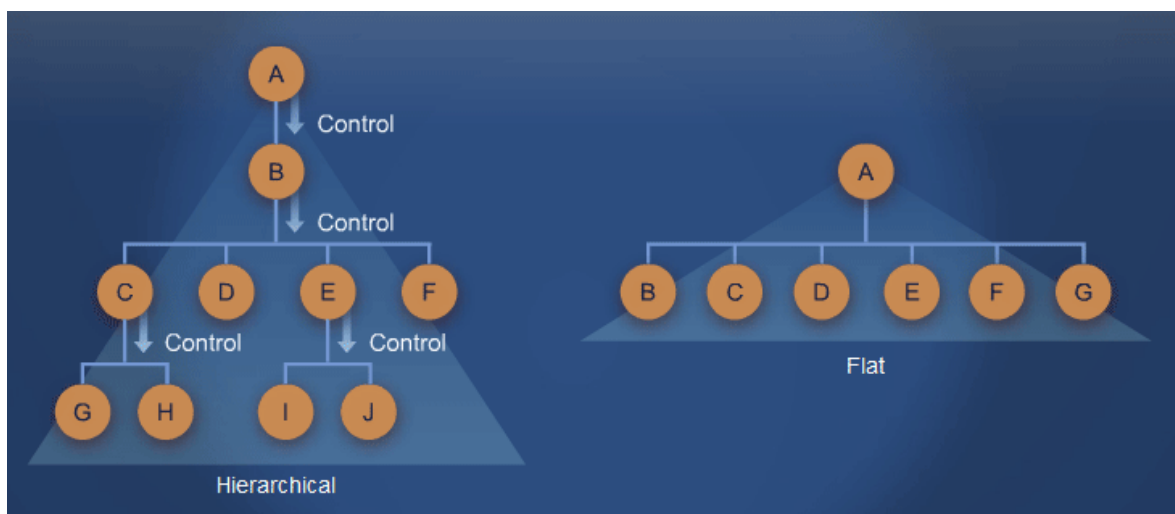


This is the selection of the types of departments that integrate each unit of specialized work within the hierarchy of the organization.

The criteria normally used are:

- By speciality or function – Structural Functional
- By product line – Business Units
- By market segment – Client Oriented
- By geographical area – Global, Multinational or Multidomestic
- By work flow – This tries to break the limitations of the traditional structural-functional hierarchy

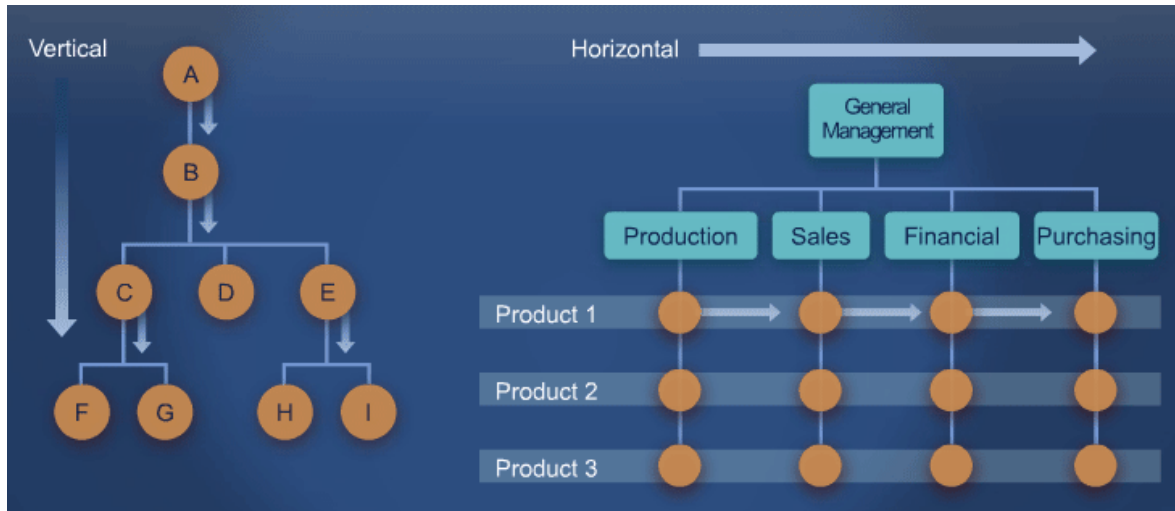
## LEVELS OF SUPERVISION



An organization's profile is determined by the number of people who make up the departments on each level of the hierarchy.

This number of people determines the “scope of control” of each department’s head.  
There is a growing trend towards flatter structures.

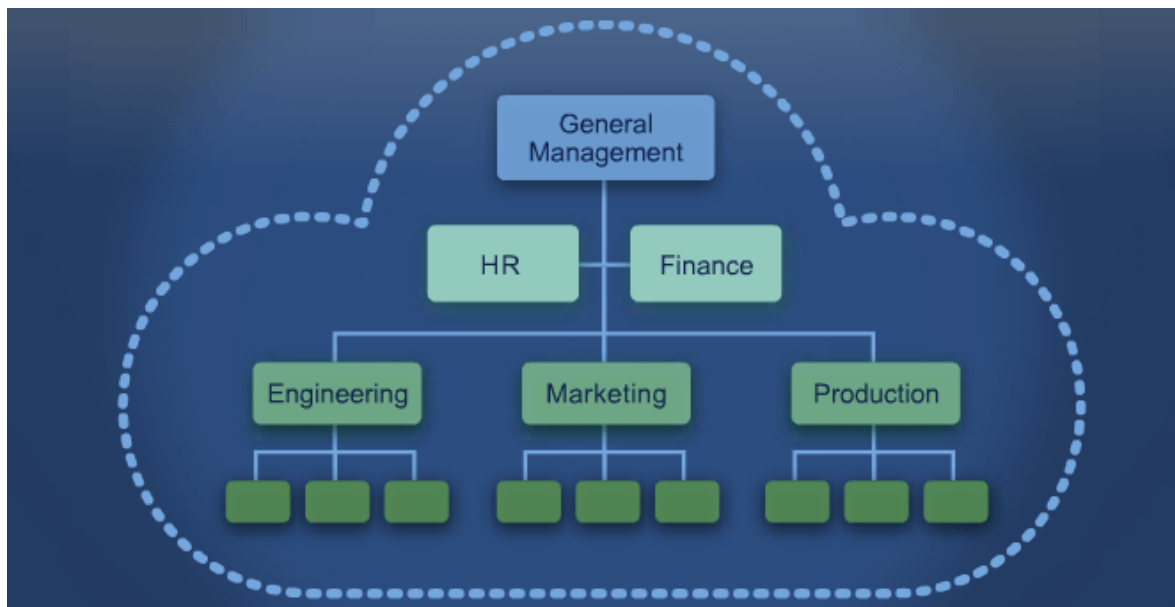
### DISTRIBUTION OF DECISION MAKING



Two forms of distribution:

- **Vertical:** Centralized or Decentralized
- **Horizontal:** Distribution of power among the departments

### ORGANIZATIONAL BOUNDRIES

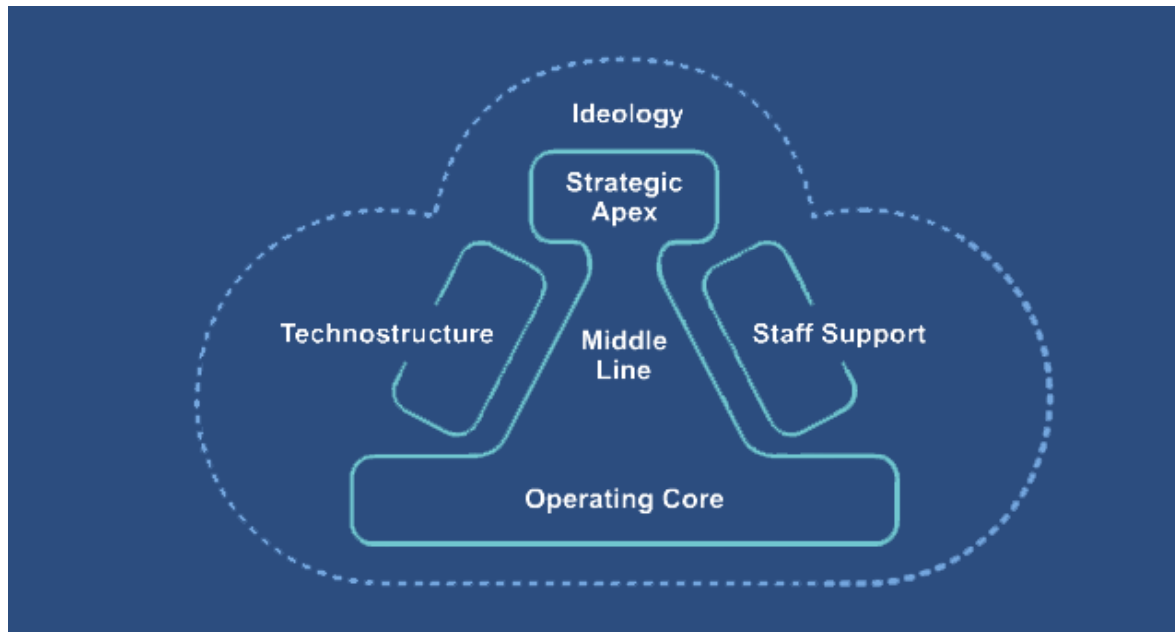


Moreover, it is necessary to bear in mind:

- The political nature of an organization
- The existence of an informal structure that may necessarily coexist with the formal structure.



## THE ELEMENTS OF ORGANIZATIONAL STRUCTURE



In his book “Structure in Fives: Designing Effective Organizations” (1983), Henry Mintzberg describes the five fundamental parts that form organizations and the coordination mechanisms that link them.

In this section we are going to analyse this model in a very schematic way.

### 1.- Operating core

Made up of the workers who perform the basic functions of purchasing, production, sales, etc. This is all the people who do the basic work directly related to the production of products and services. They carry out four principle functions:

- Guarantee the inputs for production.
- Transform inputs into outputs.
- Distribute outputs.
- Provide direct support of the input functions.

### 2.- Middle line

This is the people who carry out their work between the strategic apex and the operating core. They are responsible for departments, divisions, functions, processes, etc. They are the people who try to understand the strategic lines, implant and implement them.

### 3.- Strategic apex

These are the directors who occupy the highest part of the hierarchy and supervise the totality of the system. They are in charge of making sure that the organization effectively fulfils its mission and satisfying the interests of the people who control or who have some sort of power over the organization. This entails three combined sets of obligations:

- Direct supervision.
- Environmental relationships.

- Strategic development of the organization.

#### 4.- Support staff

These are units specialized in providing help to the organization outside the operations work flow.

#### 5.- Technostructure

These are analysts who study adaptation and control, stabilization and normalization of the organization's activity. They analyse, plan and control the organization's work.

There are three types of analysts:

- Work-study, who normalize processes.
- Planning and control, who normalize outputs.
- Personnel, who normalize skills.

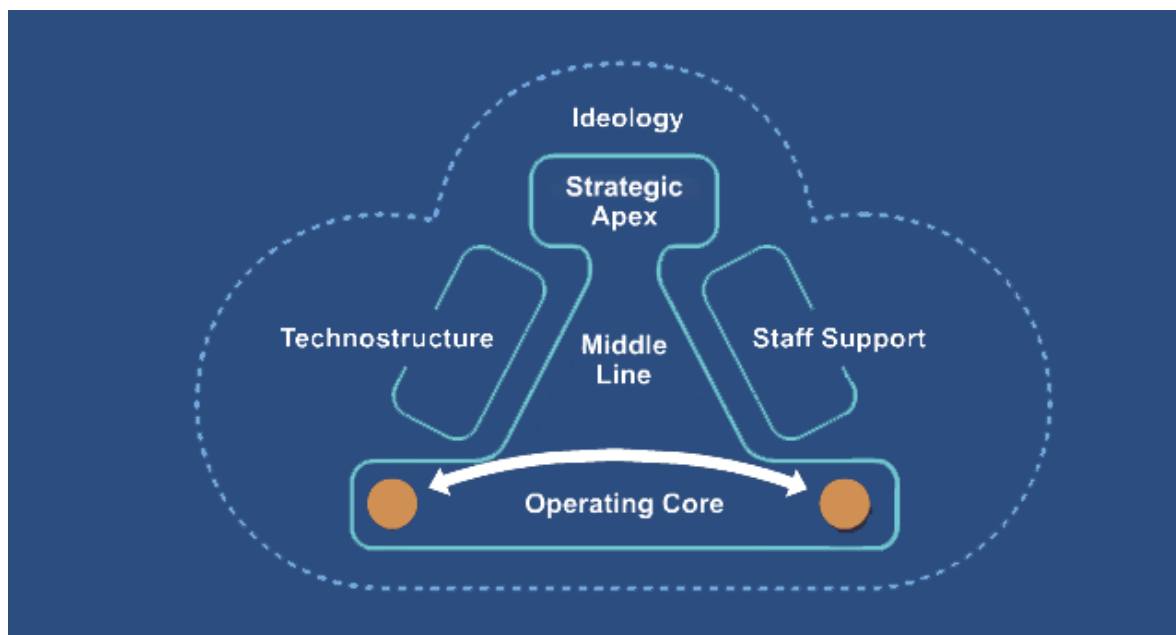
#### 6.- Ideology

This influences the traditions and beliefs of the organization and provides the skeletal structure with a life of its own.

### THE COORDINATION MECHANISMS

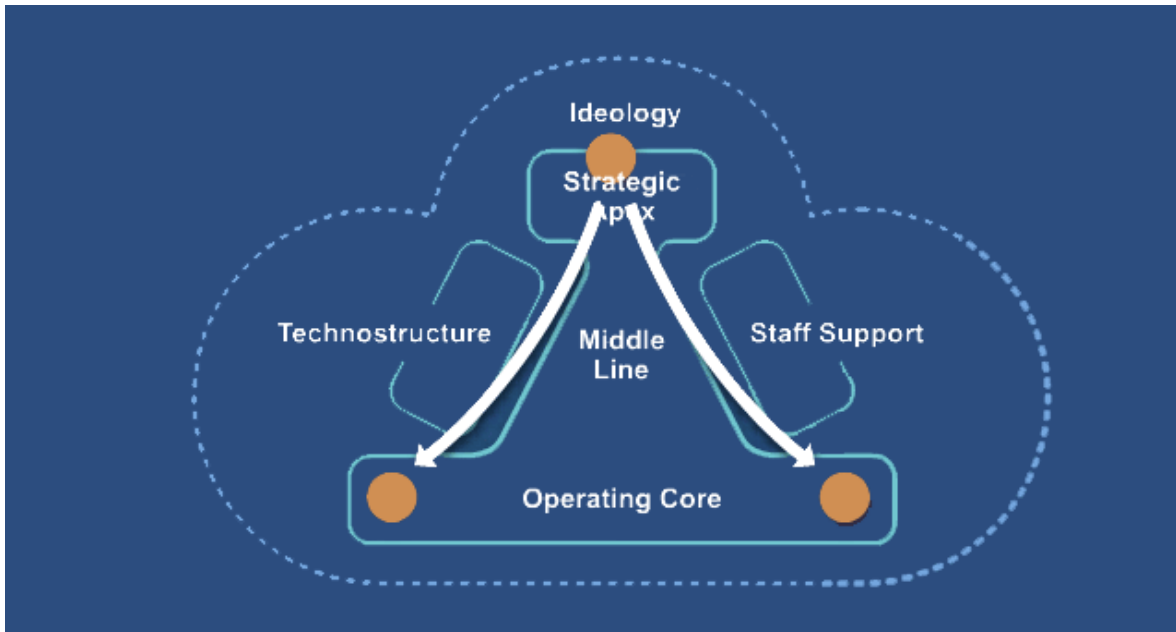
These mechanisms are what achieve coordination of the work. They can be considered as the basic elements of a structure, the glue that maintains the cohesion of the organizations.

#### 1.- Mutual adaptation



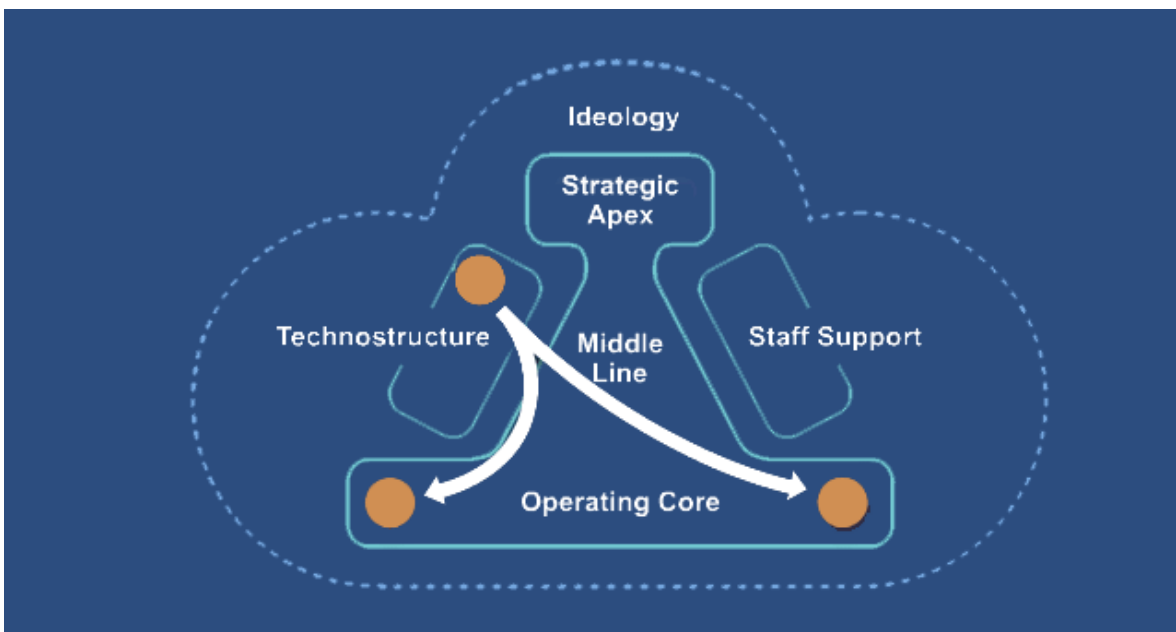
The coordination of work – at all levels - in the organization is achieved by simple, informal communication.

## 2.- Direct supervision



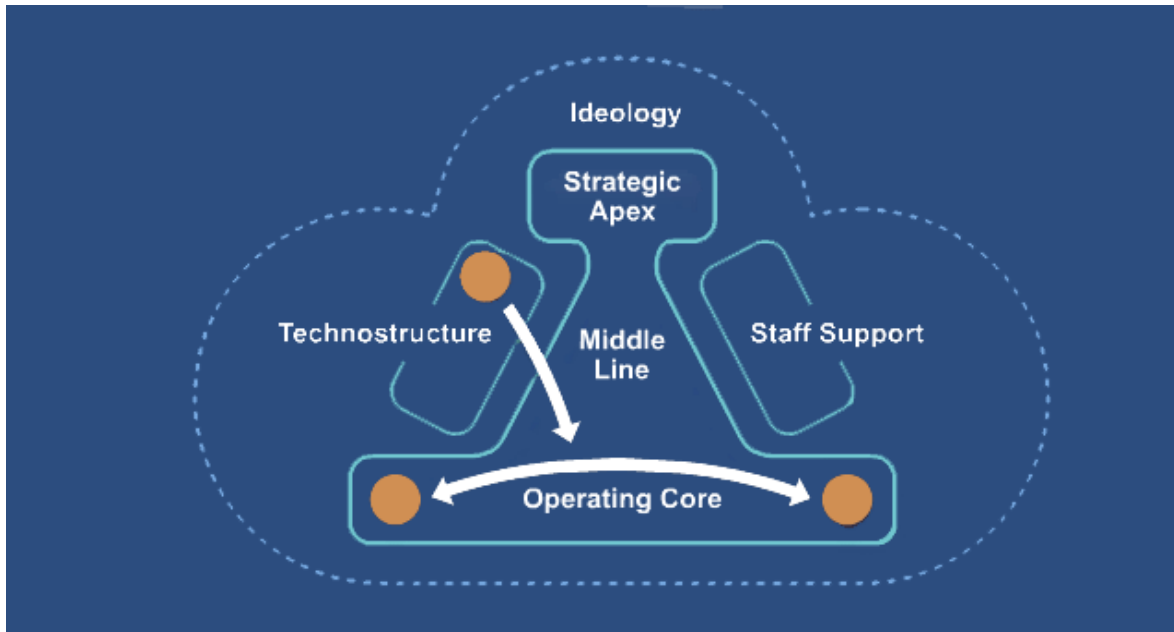
Coordination in the organization is achieved by management assuming responsibility for the others work, giving instructions and controlling their actions.

## 3.- Normalization of work processes



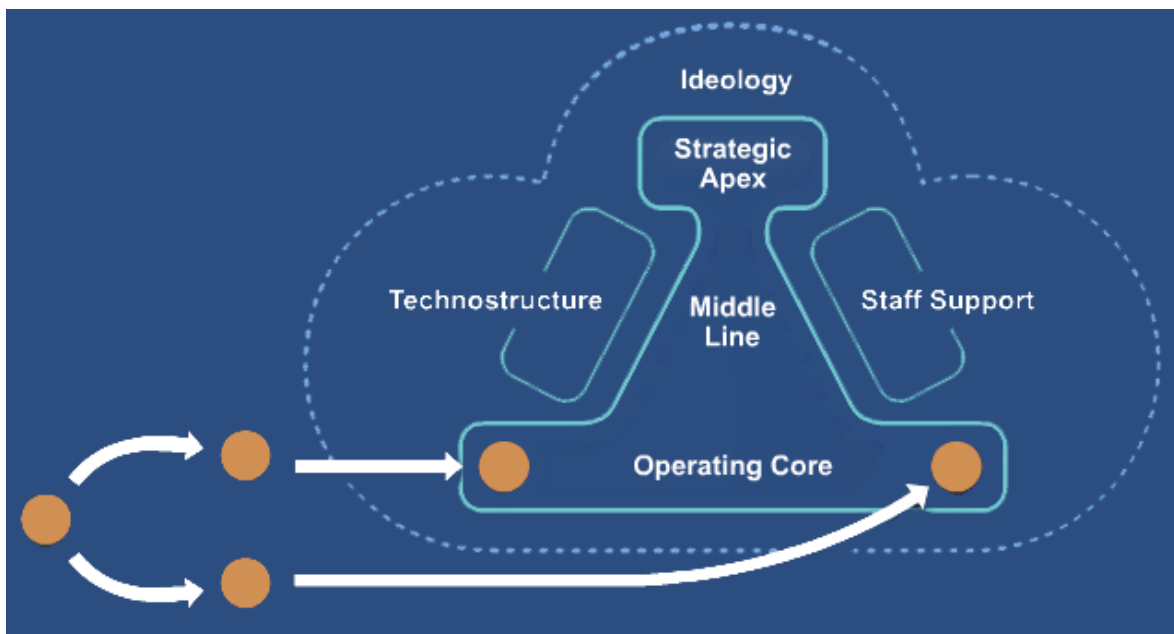
Coordination of work is achieved by members of the organization giving direct specifications on the content of the work, especially at the operative level.

#### 4.- Normalization of results



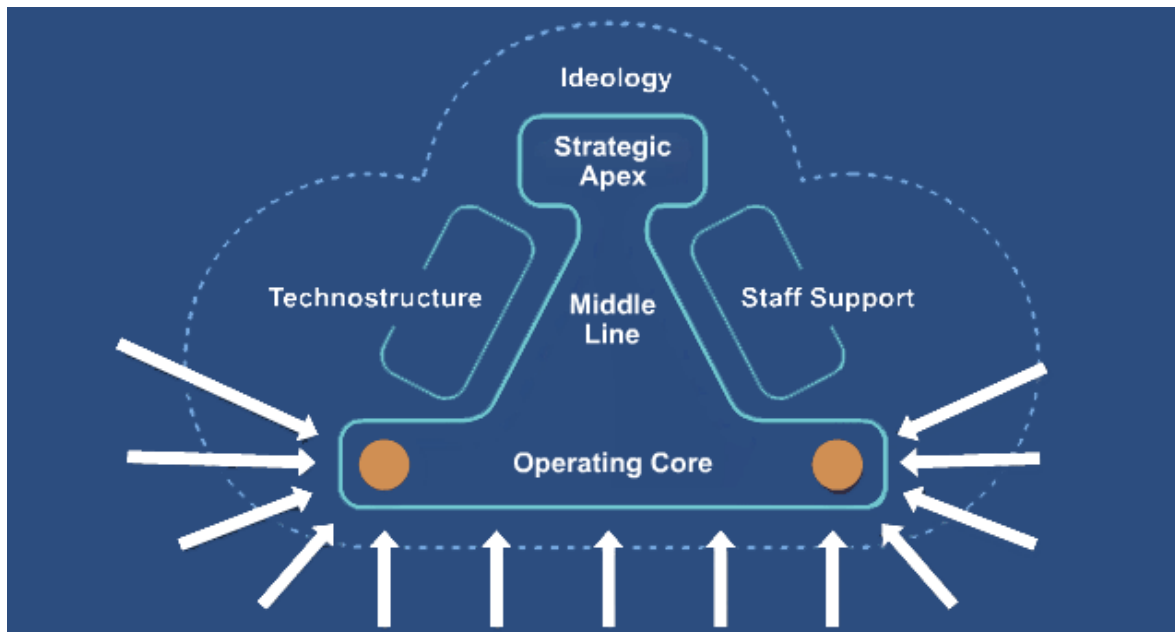
Coordination is based on specifying of what it is that the organization wants to achieve by reaching the objectives it has laid out.

#### 5.- Normalization of skills



This starts out by determining what knowledge is needed to cover a post within the organization – knowing the professional profile of the person. Acquiring knowledge usually takes place outside the organization in schools, professional training centres and universities.

## 6.- Normalization of the norms



Coordination is achieved by sharing beliefs, values, norms, rules, etc. that are shared by the workers.

## LATERAL PROCESSES OF COMMUNICATION

The larger part of an organization's work flow does not follow a vertical hierarchy.

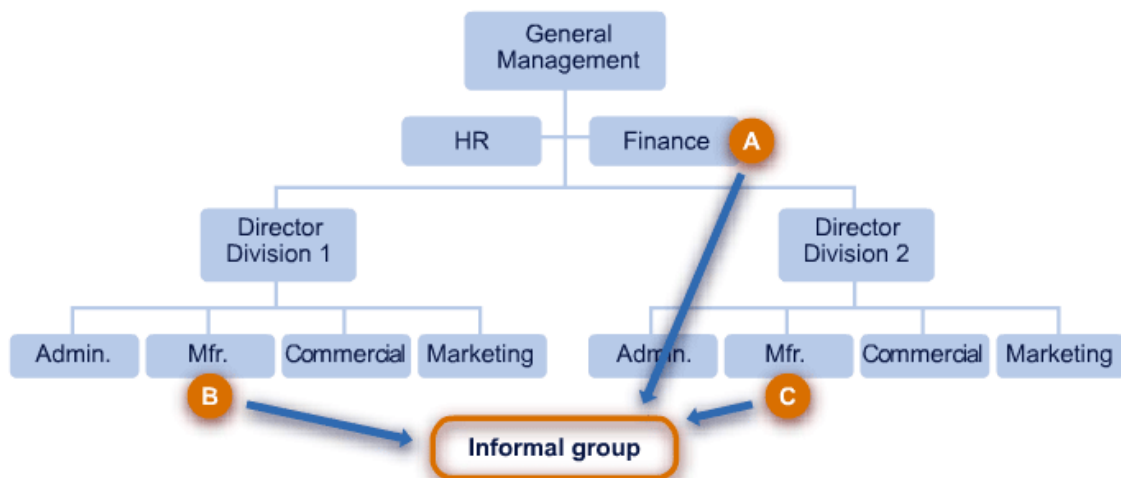
In the same way that the continuous change in environment becomes a constant, lateral processes become the principle way of coordinating activities.

Organization designers have to keep in mind the necessity for interfunctional coordination and the types and quantity of lateral processes have to coincide.

The drivers:

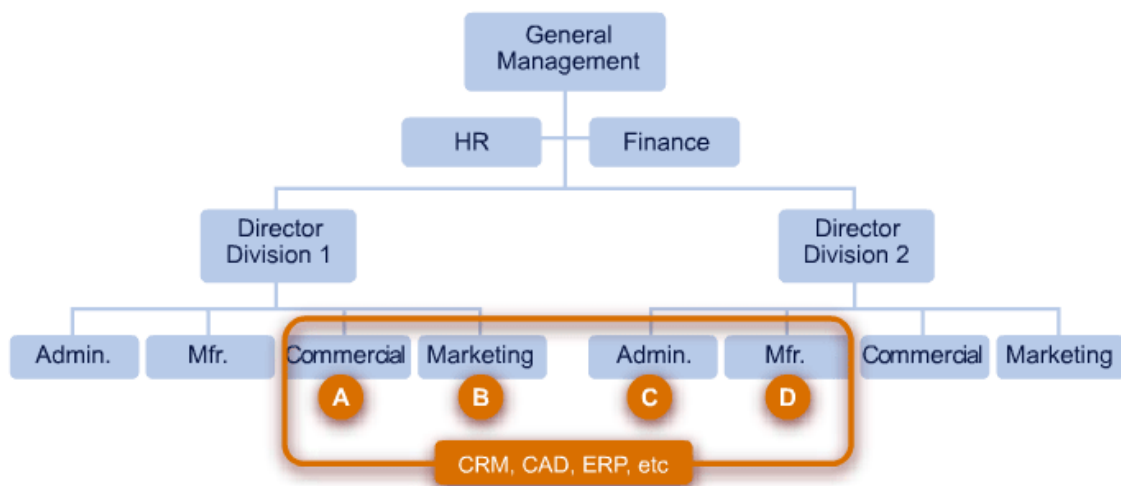
- Diversity.
- Necessity to adapt to market changes – Reduction in product life cycles.
- Interdependence among the functional units.
- Technological framework – Internet – Collaboration tools.
- Speed in decision making.

## VOLUNTARY AND INFORMAL GROUP



These groups are spontaneously created. They are the easiest way and what is more, they do not have any financial connotations as they do not imply any explicit cost for the organization. Although they sprout up naturally, organization designers (management) can influence their creation and efficiency (for example: via architecture).

## E- COORDINATION



This lateral process is based on the use of new information technologies. Examples of which may be groups that work on the same project via a CAD (computer aided design) platform or any CRM project to provide service to the actual client.

### FORMAL GROUP (FROM SIMPLE TO MULTIDIMENSIONAL AND HIERARCHICAL)



In formal groups the teams and objectives are formally established, the work processes defined and objectives are established for the interdepartmental functions. Formal groups cost more money because they arise from the company's management and therefore lose their naturalness. They are also more cost intensive given that they are used in conjunction with informal groups and cannot substitute them.

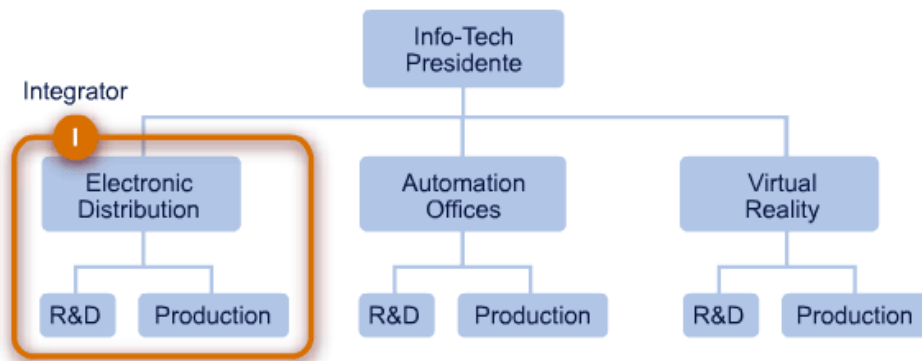
In general, the organization needs both types, given that informal coordination is not enough to achieve objective and integrate strategies.

### INTEGRATORS (FULL TIME, BY ROLES AND DEPARTMENTS)



Integrators are necessary for formal group leadership. They are often heads of products/projects/processes/brand, etc. The points of integration must be professionalized in order to assure results. This is a very difficult role to carry out given that it requires the coordination of people among whom the integrator may not have any hierarchical authority and on occasion some confusion may ensue with respect to the roles and responsibilities.

## MATRIX ORGANIZATION



The final and most complex form of formal institutionalization of lateral processes is the matrix organization. To create a matrix, the integrator's role turns into a linear role in the organization and an additional hierarchical dimension is created. The company then has two hierarchical dimensions. Matrix structures are normally put into effect when the company's strategy needs a balance and equilibrium among different powers.

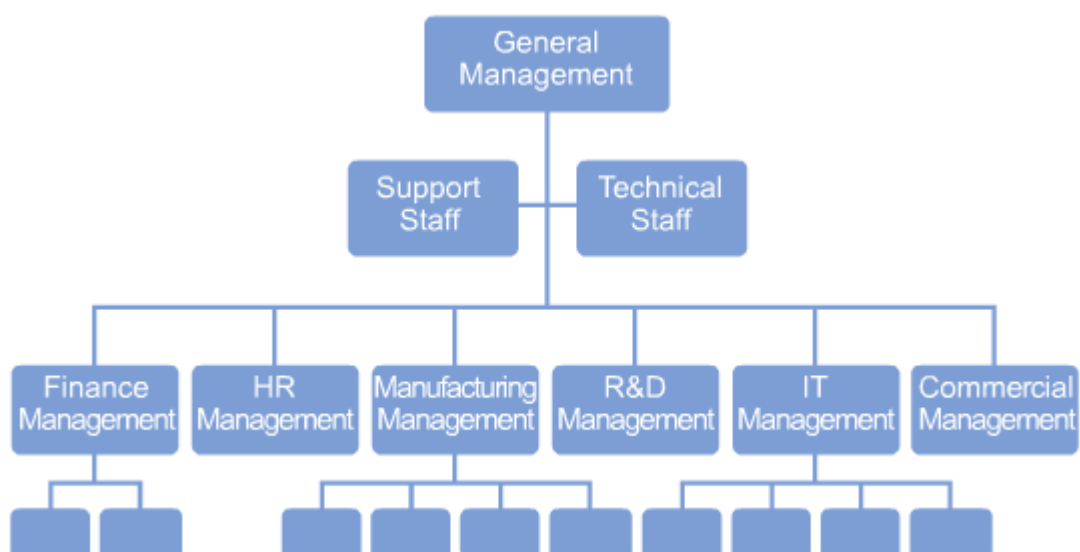
## **SCHEME OF CHARACTERISTICS, ADVANTAGES AND DISADVANTAGES OF THE DIFFERENT ORGANIZATIONAL FORMS**

The greater part of an organization's work flow does not follow the vertical hierarchy.

In the same measure that continuous change becomes a constant, lateral processes become the principle way of coordinating activities.

Organization designers have to bear in mind the need for interfunctional coordination and the types and quantity of lateral processes have to coincide.

## FUNCTIONAL ORGANIZATION





Appropriate for focussed and low cost strategies.

- Oriented towards “inputs”.
- Centralized.
- Supervision via hierarchy, plans and procedures.
- Orientation towards resource efficiency.
- Appropriate for stable environments.
- Creates functional specialists.
- Creates interfunctional barriers. Bureaucracy.

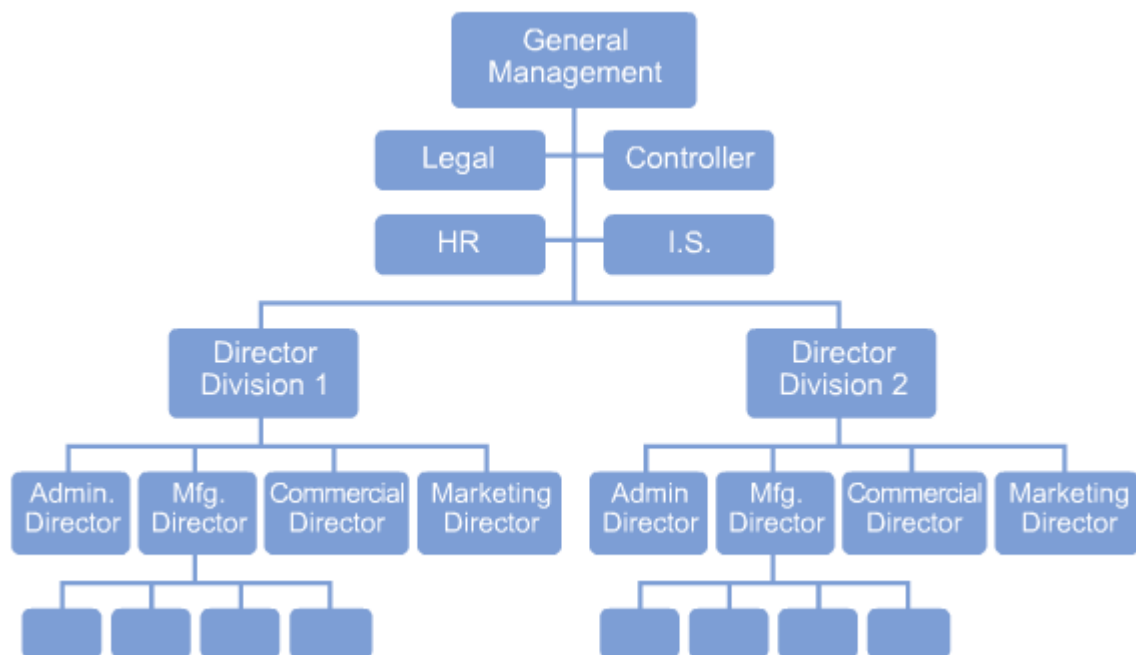
#### Advantages

Very clear hierarchy  
Easy to understand  
Very easy to control  
Clarity in decision making  
Development of good specialists  
Clarity in responsibilities

#### Disadvantages

Efficiency prevails over innovation  
Resistance to change  
One function tends to predominate  
Each function is concentrated on itself  
Interfunctional communication is difficult  
Slow and bureaucratic  
Isolated functions, conflicts  
Develops “executives” not innovators  
Decision making is limited to a few people

### DIVISIONAL ORGANIZATION



- Appropriate for Diversification strategies
- Oriented towards “outputs”
- Separation of strategy and operations
- Directors of division and staff
- Orientation towards account yield
- Adaptability to different markets
- Creates generalists
- Creates barriers between businesses – duplicities
- Fails due to unrelated diversification
- Fails due to excessive intervention from the head office

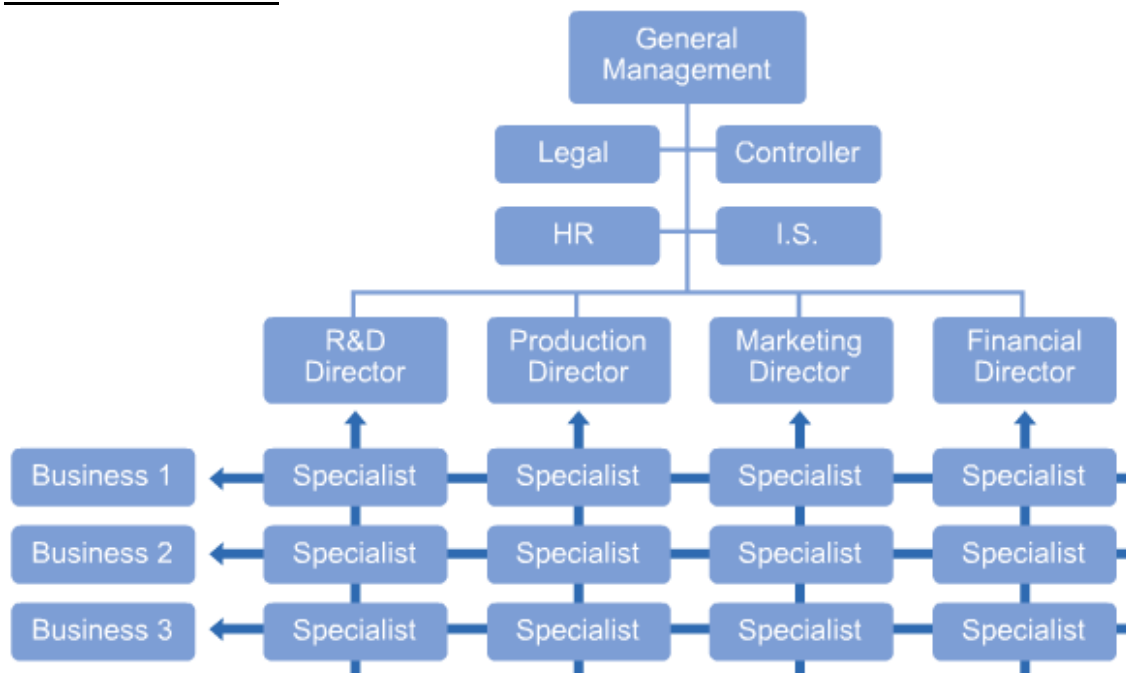
### Advantages

Develops directors  
Stimulates decentralization and delegation  
Clarity of responsibilities at the level of each division  
Resources must be fought for  
Empowerment  
Quicker to react  
Lowers the hierarchical level of decision making

### Disadvantages

Innovation is restricted to existing divisions  
Is more complicated to manage  
Little sharing of resources among divisions  
Fewer economies of scale  
High transaction costs  
Poor communication among divisions  
Is expensive; resources are doubled  
Head office does not hand over everything  
Divisions want more autonomy

## MATRIX STRUCTURE



- Appropriate for Market Adaptation strategies
- Double orientation input-output
- Shared decision rights
- Double "reporting"
- Adaptability and Efficiency
- Complex environments - Multiple demands
- Obliges learning to live with ambiguity
- Complexity and imbalances

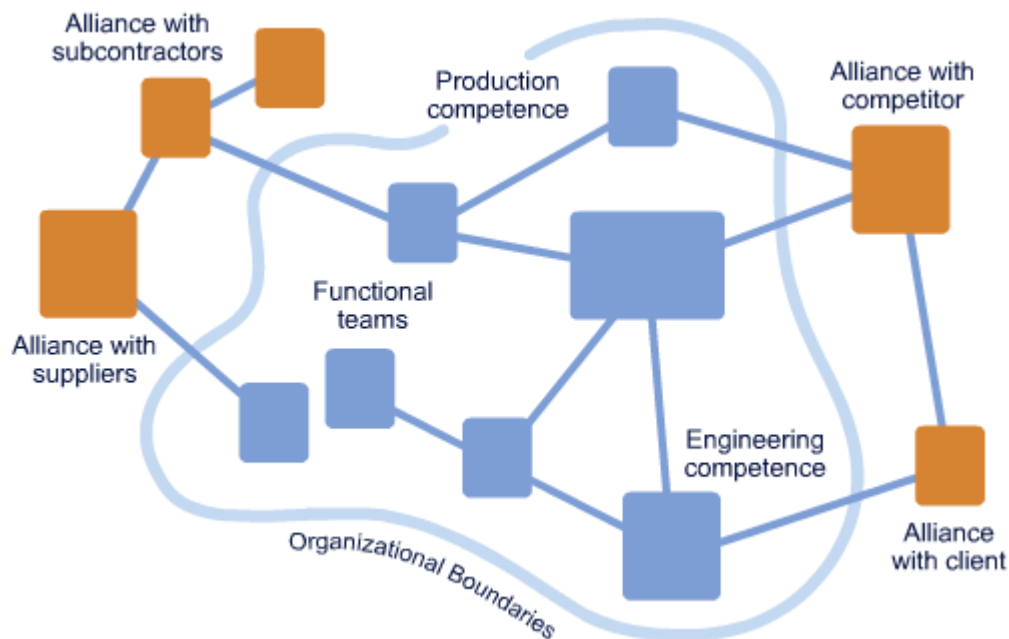
### Advantages

Innovative and versatile  
Can or should save costs  
Fosters communication  
Fosters professional development from the General Management's point of view  
Flexible and adaptable to new scenarios and situations.

### Disadvantages

Risk of tensions and of a climate of anarchy  
Encourages power struggles  
Requires high quality management  
Much time spent in meetings and on consensus seeking  
Its management is very complex

## NETWORK ORGANIZATION



- A small “head office”
- Satellites of specialists in its surroundings
- Much “outsourcing” to various independent companies
- Network of contacts is very important (Networking)
- Continuous flow, entrance and exit, of suppliers (subcontracted) whom appear to be under the same canopy as the client
- The core is focussed on the better known competences and where value can be added

### **Advantages**

Makes it easier for organizations to attract talent and get resources from all over the world.  
There is no need for big investments in infrastructure.  
Great contribution to flexibility and response times.  
Administration cost is limited.

### **Disadvantages**

Lack of management control over activities and employees.  
Relationship management needs a lot of time.  
Higher risk of organizational failures.  
Loyalty may be lower.

## OVERVIEW OF ORGANIZATION FORMS

	Functional	Divisional	Matrix	Network
<b>Division of Work</b>	By “inputs”	By “outputs”	By “inputs and outputs”	By knowledge
<b>Coordination Mechanisms</b>	Hierarchical Supervision, plans and procedures	General Director of Division and “Head Office Staff”	Dual-Hierarchical Relationships	Transfunctional Teams
<b>Decision-Making Rights</b>	Highly Centralized	Separation of Strategy and Implementation	Shared	Highly Decentralized
<b>Importance of Informal Structure</b>	Low	Moderate	Considerable	High
<b>Policy</b>	Interfunctional	Central-division and interdivisional	Throughout all dimensions of the matrix	Changeable Coalitions
<b>Authority Bases</b>	Position and Functional Competences	Responsibilities and General Management resources	Ability and Negotiation resources	Knowledge and Resources
<b>Most indicative Strategy</b>	Focussed Strategies / of low cost	Diversification Strategies	Market Adaptation Strategy	Innovative Strategy
<b>Resource Efficiency</b>	Excellent	Scarce	Moderate	Excellent
<b>Response Capacity</b>	Scarce	Moderate	Good	Excellent
<b>Adaptability</b>	Scarce	Good	Moderate	Excellent
<b>Responsability</b>	Good	Excellent	Scarce	Moderate
<b>Most indicative Environment</b>	Stable	Heterogenous	Complex with multiple demands	Volatile Environment